

## The Outcomes Framework for PR19

### Blueprint for Water

January 2017

Blueprint for Water is a unique coalition of environmental, water efficiency, fisheries and angling organisations and a campaign of Wildlife and Countryside Link. Blueprint is calling for the Government and its agencies to set out the necessary steps to achieve “sustainable water” by 2021.

### Executive Summary

We welcome the opportunity to engage with OFWAT as part of this consultation. Our five main points are summarised below with a more detailed response then provided.

- We support the outcomes framework and believe that, properly targeted, it can provide strong incentive to drive improvements in environmental quality and customer service.
- We are very supportive of the use of comparative performance information in the water sector and welcome Ofwat’s emphasis on these being ‘stretch’ outcomes to set the scale of ambition and expectation to go above and beyond on company compliance with statutory requirements. To be effective the comparative framework needs to use common metrics, show trends, relate to targets and be visible and understandable at both a sector level and a company level. Improvements across all these areas are needed for PR19. We believe that comparative outcomes are essential to measure performance and managed well, need not undermine companies’ individual scope to develop bespoke and innovative outcomes to meet the needs of their customers and environment.
- We welcome the inclusion of environment within the comparative metrics proposed. While we are supportive of the AIM – providing that it delivers – we do not believe the 10 common measures currently proposed fully capture the positive outcomes that companies deliver for the environment such as cleaner bathing waters, healthier rivers and improved land management. These are outcomes that customers view as important. We propose an Environmental Composite measure as the best approach to account for environmental investment and impact. If this is not a viable option then we recommend an additional metric which we believe more adequately captures company endeavours relating to the environment. In addition, companies should be strongly encouraged to continue to include environmental measures in their bespoke commitments – Ofwat could enable this by providing examples and guidance.
- We do not believe that companies should be rewarded for compliance with the statutory minimum, for example, there must be no upside financial gains to be made for reducing pollution incidents. Rather, companies should see a diminishing penalty applied as they reduce the number of category 1, 2 and 3 incidents.
- We support, and are engaged in, the development of outcomes and measures that support increased resilience. It is absolutely vital that companies consider the resilience of the natural environment – the very systems upon which their whole business depends – alongside pipes, power and processes through both the resilience principles, assessments and the performance measures. In our view, Ofwat would fall short of its statutory resilience duty if it did not make this abundantly clear to companies.



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## Making performance commitments more stretching

### **Q1: What is your view on the use of improved information, including comparative performance information, to make performance commitments more stretching?**

- Blueprint for Water are very supportive of the use of comparative performance information to help drive improvement.
- We believe the proliferation of measures and metrics in PR14 made comparison difficult for customers, Customer Challenge Groups (CCGs) and stakeholders, and we want to see this addressed for PR19.
- For example, Blueprint would find it very difficult to compare company progress against the environmental plans and performance commitments they made in PR14 (and which we scored them against in our [scorecard](#)) because much of the information is not in the public domain or reportable in a way that is not comparable between companies.
- To be effective, the comparative information needs to be easy to find and understandable. It should be possible to compare performance between companies and also to compare current performance with past performance and future targets (short and long term, stretch).
- We agree that outcomes should be stretching. They should be framed to drive performance beyond minimum legislative requirements and should not include rewards for performance which is not compliant with legislation (perverse incentives), even if this represents an improvement on past performance.
- We welcome the DiscoverWater initiative as a step in the right direction and see it as a useful hub for customers and stakeholders to find, or be signposted to, sectoral and company performance data. However, the underlying data should be made open source so that stakeholders and researchers can download and use the data to both support and hold water companies to account. We have made a number of suggestions to Water UK and others about appropriate metrics to include in the next phase of the Dashboard and strongly hope that they are considered for inclusion.
- We believe that league tables are useful. No company wants to finish near the bottom and therefore, they provide a strong reputational driver. In PR14, Blueprint developed and used a comparative [scorecard](#), illustrating how the companies were reflecting our environmental priorities in their business plans. The scorecard was qualitative and difficult to pull together (requiring us to read all company plans, supporting documentation and to contact companies directly for additional information in order to understand proposals relating to the environment). It also provoked useful discussion and has led to greater and better engagement with a number of companies in PR19. For example, some companies that scored poorly have been much more proactive in engaging with Blueprint about their plans in PR19. As such, we support embedding environmental outcomes within the common outcomes framework being developed by OFWAT (see Q2).
- There is also a need to have standard levels of service so that companies can more easily share or co-develop resources. Levels of commitment for the common performance commitments could incentivise better services for customers across the sector. Common level of service should also include the loss, the design year (return period) and the dry annual average per capita consumption used in the deployable output calculations.



## Q2: What is your view on the common performance commitments we are suggesting for PR19?

- The 10 common performance commitments put forward do not adequately reflect the positive outcomes that companies can, and do, make to the quality of the environment. The 10 proposed commitments largely reflect companies' operational activities and various inputs, outputs and levels of service, but fail to capture the ultimate environmental outcomes of these activities. Section 4 of Appendix 4 highlights a desire to make performance commitments more focussed on the outcomes that customers and society value, rather than on traditional measures of industry performance. However, this does not seem to have been reflected in the proposed common commitments.
- An investment of over £120bn made by the companies' since privatisation has delivered a range of important environmental outcomes such as healthier rivers, cleaner bathing waters, restored wetlands and more sustainably managed catchments. The importance of these environmental outcomes to customers is consistently reflected in their feedback to companies and also in the fact that the companies included a large number of "environmental" outcomes and performance commitments for PR14 (Figure 2.2 in Appendix 1 of the Consultation document).
- We support the inclusion of an "environmental" measure. While we support Ofwat's continued focus on the Abstraction Incentive Mechanism (AIM) (subject to a number of amendments to ensure it is effective – detailed below), we do not believe it is the most appropriate single indicator of environmental achievement. On its own, AIM overlooks significant investment from the sector's wastewater operations and does not account for water quality or catchment and habitat improvements. Additionally, some water companies appear unwilling or unable to bring forward sufficient AIM sites to make the outcome truly representative of the sector's hydrological impact on the natural environment, or provide comparability between companies (see table below).
- Therefore, we recommend a common outcome measure which assesses the status of our rivers and wetlands, bathing waters and our catchments. We have proposed below additional indicator(s) that we believe are more useful if looking at impact across companies. Overall, the largest proportion of water company adverse impact on the environment relates to wastewater pollution (according to Environment Agency data), and the AIM does not equally apply to all companies, whereas it could have most impact driving positive change in areas of water stress.

### 1. **Ofwat should include a simple and overarching environmental indicator that is comparable across companies using readily available Water Framework Directive data.**

Company impact on the environment can be wide ranging – from sewage pollution; impact on biodiversity related to intakes and need for screening, to over abstraction. Ofwat must develop an overarching environmental indicator that takes account of all these impacts. Such an indicator could be relatively straight forward and simple to design using existing Environment Agency data.

The Environment Agency currently collects data about the ecological status of water bodies for the purposes of Water Framework Directive. For all those water bodies not achieving good or high ecological status, the Environment Agency publishes a 'Reason for Not Achieving Good' (RNAG) data base. In this, the Environment Agency lists all the reasons why different elements are failing to meet the required standard and apportion to a sector. It would therefore be relatively straight forward to overlay water company boundaries over this database and produce a list of all the Reasons for Not Achieving Good associated with every single water company. This could be used to create an



overarching environmental comparable performance indicator, which would take account of all the impacts the companies are having on the environment (not just abstraction).

Examples of the metric:

- **Total number of RNAG (ecological status in relation to the Water Framework Directive)** - Transposing the data directly could be the simplest approach. It may be the case that some companies have more water bodies in their area (due to geography), but the total number is important as this is actual impact that a particular company needs to address.
- **Proportion of total number of RNAG** - The data could potentially be normalised by dividing the water company total RNAG by the total RNAG in the water company area. This would reflect a sector apportionment of failures. While this is preferable from a 'normalisation' perspective, we would be concerned that this could potentially down play the need for a particular water company to take action – as a lower proportion could simply reflect the poor state of water bodies in a catchment, rather than reflect the action the company has taken to address its impact.
- **Total number of RNAG per km water body** - This could be an approach to normalise the data in a way that would better reflect water company impact.

We recognise that the RNAG data has different levels of certainty associated with each failure (probable/suspected/confirmed) and that ultimately, action to address these failures under the WFD depends on solutions not being disproportionately expensive. Rather than undermine such a measure, the measure should be framed as a simple, comparable (and relatively crude) way of understanding the risk of water company impact on the environment.

Finally, we recognise that this metric would not capture investment in catchment management, where a programme of work is not addressing water company impact on the environment per se (e.g. those schemes where water companies work with farmers to address agricultural water pollution to enhance the quality of drinking water or off-set impacts). However, we believe that it is vital that each water company understand and address their impact on the environment as part of PR19. We have a proposal for a composite measure (see below) that would enable inclusion of catchment management activities, which could be used in addition to the RNAG metric.

We advocate that Ofwat work with the Environment Agency to develop this indicator for inclusion in the mandatory comparable data set (in addition to, or possibly as a replacement for, AIM). Blueprint would be keen to support this work.

## 2. **Ofwat should make the AIM more effective and make the abstraction outcome explicit, as well as promoting the mechanism.**

Blueprint is fully supportive of the AIM and welcomes its inclusion in the comparable outcomes set. However, we have a number of concerns regarding its implementation to date and would be highly concerned if Ofwat **only** included the AIM as a comparable indicator in its current form.

Ofwat should:

- **Complement the AIM in its comparable outcome set with the RNAG metric outlined above, to take account of environment impacts wider than those associated with abstraction.**
- **Make the outcome abundantly clear (and that the AIM is a mechanism companies can use to achieve that outcome).** We propose: proportion of total



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abstraction from sources that pose risk to the environment. Calculated based on % abstraction from groundwater sources that are in poor quantitative status and surface water sources that are from catchments where recent actual flows are below the Environment Flow Indicator (EFI) at Q90<sup>1</sup>. Such a metric would also support the resilience objective as a company with a greater proportion of its abstraction sourced from environmentally sensitive water bodies would be less resilient to future drought or population growth. It would also encourage alternative supply and demand side solutions to be progressed.

- **Simplify AIM, attach financial incentives and make the approach more rigorous and open in relation to company performance.** Blueprint would welcome a continued dialogue with you on this. Ofwat’s proposals on AIM for PR19 must reflect on the fact that its effectiveness in PR14 was patchy, with some companies embracing it, some acting in only a few places and others ignoring it. If this continues, it severely limits its value as a common performance commitment, particularly if it remains reputational only. Table 1 below is telling, showing that many companies only took forward AIM schemes in a small proportion of sites proposed by Ofwat. This sort of approach is essential to communicating performance on AIM.

**Table 1**

Company	Abstraction sites impacting WFD Band 1,2 & 3 sites which OFWAT sent to companies in October 2013 (from EA source)	Sites water companies proposed for AIM from April 2016 or later (as at October 2015).
Affinity	80	23
Severn Trent	64	0
Anglian	49	2
Southern	46	4
Thames	33	5
South East	25	2
Yorkshire	16	2
Wessex	15	1
Sutton and East Surrey	14	0
South Staffordshire	13	2
Northumbrian	9	1
Portsmouth	2	1
United Utilities	2	4
South West	0	0
Welsh Water	0	0
Bristol Water	0	0
Dee Valley	0	0

Note: Wessex and UU both had one site where they did set themselves a financial incentive. The rest are reputation.

<sup>1</sup> Again, we recognise that the Environmental Flow Indicators (EFI) are indicators of risk only – and that before taking action companies work with the Environment Agency to understand impact. However, we believe that a simple approach is most suited to a comparable outcome and that this approach, focused on risk, is similar to the indicative approaches in the other comparable metrics Ofwat has proposed.



3. To get a fully overarching picture of the environmental impact of water companies, **Ofwat should include and promote an Environment Composite measure.** As such, we recommend a composite common outcome measure, which assesses status of our rivers and wetlands, bathing waters and catchments. Environmental investment is variable amongst water companies and more could be done to drive efficiency and innovation in some areas. Progress against environmental outcomes is tangible for customers and is important in gathering their support for ongoing investment. The Environment Composite measure should incorporate a basket of metrics calculated in a common manner with common units. It could be developed in a similar manner to the proposed new customer experience measure, and Blueprint would be keen to work with Ofwat, the Environment Agency and water companies to develop this.

This measure could incorporate and take the place of the AIM measure currently proposed. Or, given the apparent reluctance of companies to engage in AIM, the measure could incorporate a broader headline of abstraction impact, e.g. the proportion of total abstraction from environmentally sensitive sources. This would encourage alternative supply and demand side solutions to be progressed. Such a metric would also support the resilience objective, in that a company with a greater proportion of its abstraction sourced from environmentally sensitive water bodies is going to be less resilient to future drought or population growth.

Based on consideration of the common performance commitments currently proposed; a review of existing environmental PR14 performance commitments and discussions with coalition partners, companies and regulators, the Blueprint coalition has identified a number of potential performance metrics for an Environmental Composite measure that could be used (see box 1 below). A number could also be used as indicators of environmental resilience.

If our proposed approach to include a common Environmental Composite measure is not taken forward by Ofwat in the comparable outcomes set, then water companies should be directed by Ofwat to include the Environmental Composite in their bespoke commitments, to ensure that these are calculated in a common manner with common metrics. It should be ensured that, within the development of a common outcomes framework, environmental performance commitments developed by companies for PR14 are not lost for PR19.



## Box 1

### Potential Basket of metrics for the Environmental Composite measure (brackets show companies where a similar measure exists within PR14)

- a. WFD water body status improvement (Severn Trent, Yorkshire)
- b. Kilometres (km) of river with water quality improved as a result of wastewater investment (Yorkshire, United Utilities, South West)
- c. Kilometres (km) of river with improved flows (Wessex)
- d. Proportion (%) of total abstraction that is from environmentally sensitive sources (WFD Band 1 to 3 surface water bodies and poor quantitative groundwater status) (Affinity, Southern Thames and others)
- e. Proportion (%) of total wastewater discharged into water bodies failing to meet environmental water quality standards
- f. Proportion (%) or area (ha) of SSSI land owned in favourable condition (Anglian)
- g. Catchment area (ha) under better stewardship as a result of investment (Yorkshire, South West, Severn Trent)
- h. Proportion (%) of total investment delivered through third sector partnership projects or number of partnerships (Yorkshire, Severn Trent)
- i. Natural capital account created and commitment to grow it through investment period.
- j. Proportion (%) of bathing waters meeting good, and proportion (%) meeting excellent water quality standards (Southern, Anglian and others)
- k. Contributing area (ha) disconnected from combined sewers by retrofitting sustainable drainage solutions and/or proportion (%) of drainage schemes with sustainable solutions incorporated (Thames, Anglian)
- l. Volume of untreated wastewater discharged and/or number of CSO spills per year (South West)
- m. Per capita consumption compared with best practice for similar Water Resource Zones and companies – *this could be something for WaterUK Resilience group to develop, building on work in Water UK LTPF report*
- n. Energy intensity for water produced/ carbon emissions - *check existing metrics and also look into IWA WaCCliM project of water supplied /wastewater discharged*

Which measure(s) is best to act as the common performance commitment for the efficient use of water in the water sector: distribution input, leakage or per capita consumption?

- Each of these three measures are useful in different ways and therefore a single measure is not appropriate. A basket incorporating all three would have the following advantages:
  - Although distribution input provides an indication of the volume of water removed from the environment, it may be skewed by regional socio-economic changes outside a Companies' direct control (many of the companies managed to not increase distribution input in PR14 – this is welcome but reflects wider societal issues such as manufacturing decline, rather than reflecting on activities and active management by the company, per se). Therefore, we do not believe this measure should be used in isolation.
  - Leakage is consistently flagged as a priority issue by customers. We believe successfully convincing customers that they should not waste water is predicated on companies being able to demonstrate that they themselves aren't wasting water, particularly after customers have paid to have it treated. Likewise, companies seeking to justify significant investment in new supply side water resources solutions must be credible in the stewardship of the water they already take from the environment. Therefore, leakage reduction must be a common commitment.
  - Consumption also needs to be included to track performance of behavioural campaigns and the effectiveness of meters, tariffs and incentives that reward



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water efficiency. It will also encourage improvement in customer engagement on this key issue. We recommend an indicator on dry year annual average per capita consumption – peak day multiple of the annual average daily value – precisely because this is the type of consumption that underpins adverse impacts on the water environment and is the key driver in deployable output calculations that contribute to upward costs on customer bills.

- An EU initiative has been developing a City Blueprint Framework, which was initially applied to 11 cities in 2013 and expanded in a Horizon 2020 project to cover 45 municipalities and regions internationally in 2015. This framework recognises the unique nature of the social, financial and environmental setting of each city and applied this in the choice of indicator. An example given is that limited natural water availability in semi(arid) regions may result in a low score for water stress while the city may be a frontrunner in water efficiency practices. Measuring urban performance to reduce water consumption is outlined as a fairer comparison between cities.
- The following indicators relate to water efficiency directly:
  - Infrastructure - water system leakage (based on percentage leakage);
  - Climate robustness - drinking water consumption (total consumption for a city m<sup>3</sup>); and
  - Governance - water efficiency measures.
- A range of wider water efficiency indicators have been developed and applied for cities and Water Sensitive Cities. Ofwat should consider these in developing indicators for the UK that can be comparable internationally. In addition, there are wider environmental and social indicators within these indices that could add value to any outcome assessment of water companies in the UK. We recommend that Ofwat consider the benefits of including these metrics.



### Q3: What is your view on how we might apply comparative assessments at PR19?

- We support the concept of common commitment levels applying across all companies in areas where a comparison is valid.
- We recognise that for some measures, particularly those relating to regional water availability such as leakage, setting a common target level is not appropriate. However, in such cases it should be ensured that targets are still stretching.
- We agree that Ofwat needs to reserve the right to intervene to protect the interests of customers, with regards common commitment levels, as part of the business plan review process. If rewards and penalties are common, these should be set as a proportion of company profit (or similar) rather than a fixed reward / fine, in order to ensure that the benefit of compliance, or disbenefit of failure to achieve targets, is equitable across companies.
- Blueprint supports the use of graded targets/penalties/rewards linked to increasing levels of reward or penalty. For example, thresholds of industry benchmark, stretch, super stretch.

### Q4: To what extent do you agree with our proposed approach to leakage performance commitments for PR19?

- We support the use of a common approach to calculating leakage and the use of common metrics.
- We would like to see Ofwat to challenge companies on whether their Sustainable Economic Levels of Leakage (SELL) calculations factor in the full economic damages of non-essential use restrictions. As an example, Thames Water's poor progress on leakage in AMP5 doesn't seem to reflect company claims about the level of economic damages that business in their supply area would face from non-essential use restrictions.
- We urge Ofwat to challenge companies on whether their SELL calculations affect resilience and properly account for the costs to the environment, when having to abstract more water into supply to offset what is lost through leakage. This aspect will be particularly pertinent for companies facing a deficit in DO, such as Southern Water, as these companies will be planning to invest large amounts in developing new water sources.

### Q5: What factors should we take into account in our guidance on setting performance levels for bespoke performance commitments at PR19?

- As highlighted earlier, we believe that the 10 common performance commitments do not adequately reflect the positive outcomes that companies can and do make with respect to environmental quality. To address this we believe that Ofwat should include a common **Environmental Composite** measure, incorporating a basket of metrics calculated in a common manner. If this is not taken forward, then as a minimum, Ofwat should steer the companies to include an Environment Composite and the associated metrics as an area within their bespoke commitments.
- We urge Ofwat to provide guidance around basic good practice that should be required before large infrastructure projects are allowed to proceed. This should include baseline commitments for demand management, leakage and pollution incidents and drive forward innovation within water companies. For example, before allowing large scale bulk transfers or reservoirs, water companies should to show their commitment to reducing leaking and consumption. Large scale infrastructure projects should minimise environmental impact as part of their resilience duty.

#### *Should companies use common metrics for bespoke commitments?*

- Companies should use common metrics for bespoke commitments. This enables customers, CCGs and wider stakeholders to consider how their company is doing in context with wider performance in the sector.



*Should companies be guided to have bespoke commitments linked to each price control area such as water resources, bio resources?*

- We agree that companies will need to develop bespoke metrics that link to each element of the price control, in order to ensure that the revenue companies receive from customers under each price control is linked to service level commitments for that price control.

*The guidance on setting bespoke commitments.*

- We welcome the aspects of the guidance which promote use of a wider evidence base, and those which require greater engagement with customers over costs. A means of comparing marginal and incremental costs across companies would give CCGs a better basis on which to challenge companies who cite costs as a reason for low levels of ambition.

## **Q6: What is your view on our development of a new customer experience measure for PR19?**

- We support the development of the new customer experience measure for PR19.
- As highlighted above, this measure needs to be visible and readily understandable to customers, CCGs and other stakeholders.
- As water companies become increasingly customer focussed, water efficiency measures and education on drought/ flooding can more easily be undertaken. Any measure that drives greater interaction with customers would be beneficial.
- However, the Service Incentive Mechanism and impacts of ‘unwanted’ calls can detract from water companies engaging with customers on water efficiency projects. This is a perception of some water companies, who, when engaging with customers on projects, often find improvements in customer perception.
- A customer service mechanism could be used to directly drive benefits for customers through water efficiency, alternative water supplies, and storm water management at a property scale.
- A community level of service could also be developed for wholesalers. As some water companies are incentivising communities to be water efficient in return for investment in the community, this approach could be reversed to incentivise water companies.

## **More powerful outcome delivery incentives**

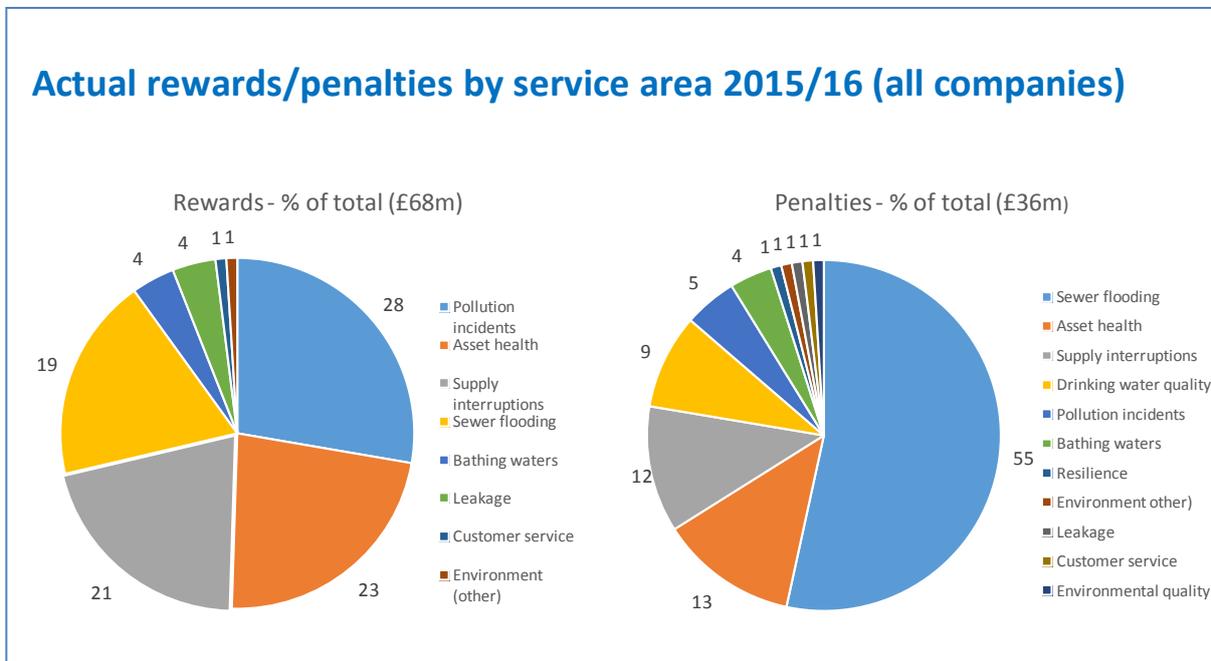
## **Q7: What is your view on the options for increasing the power of reputational and financial ODIs at PR19?**

- Blueprint supports greater transparency and accessibility around performance data as a means to enhance the power of ODIs to drive improvements.
- We are really pleased to see the development of the DiscoverWater website, particularly now it provides greater access to comparative information. Multiple ways to promote it with customers’ needs to be understood; as Blueprint we have been including links to it on our publications. It is useful that it provides a link to the companies’ own performance reporting, although this aspect is a little buried on the site. Phase 3 would benefit from a clearer indication of how companies are doing against performance targets/levels/penalties and incentives. Yorkshire Water has a useful dashboard on this within their [Performance Report](#). Without this link, the information provided can lack context.
- The above reporting and comparison sources are useful. However, the underlying data also needs to be made more open to customers, stakeholders and researchers, to both support innovation in water companies, and to better hold them to account.



- As highlighted previously, we believe that league tables are useful. In PR14, Blueprint developed and used a comparative [scorecard](#), illustrating how companies were reflecting our environmental priorities in their business plans. The scorecard provoked useful discussion and has led to greater and better engagement with a number of companies in PR19.
  - Blueprint could have a role in increasing the power of ODIs through review of delivery against the Environmental Composite and associated metrics, raising awareness with our members, supporters and the wider public. We have also discussed the potential for using reputation awards; for example there could be an award for customer experience judged by CCW and one on environmental footprint judged by Blueprint members. Without aspects such as these, there is concern that reputation, as opposed to financial rewards and incentives, is considered to be of lesser importance and taken less seriously by companies as a result.
- Despite initial fears from water companies that penalties in PR14 were likely to exceed rewards by a ratio of 2.5 to 1 over the current price review period, we have noted that rewards were in fact almost double penalties in 2015/16 (see box 2 below).
- We support ODIs for encouraging water companies to deliver environmental improvement above and beyond. However, we are concerned about the way reward payments are being used in relation to pollution incidents. Pollution incidents represent the largest number of rewards claimed or pending. Payments should not be made for causing pollution and for this metric we should only see penalties which increase in scale with the number and severity of incidences. This would avoid perverse situations such as Yorkshire Water being rewarded over £5m for causing more actual category three pollution incidents in 2015/16 than in 2014/15 (see table 2 below). This would bring pollution in line with drinking water compliance, for which there are no rewards for reducing drinking water compliance failures, just penalties for failing to meet commitments to improve performance. Rewards may be appropriate only if they reflect a decline in pollution incidents year on year and be proportional to the achieved reduction.

## Box 2



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Table 2

## Companies with rewards for performance on Category 3 pollution incidents 2015/16

Company	2014/15 estimate for Cat 3s at PR14	2014/15 actual as reported by company	2015/16 target for Cat 3s agreed at PR14	2015/16 actual reported by company	change 2014/15 to 2015/16 (actual)	Reward due (£m)
Anglian Water	408	390	371	144	-63%	4.39
Dwr Cymru	224	117	161	110	-6%	0.99
Severn Trent	457	369	429	293	-21%	4.37
United Utilities	207	212	204	136	-36%	3.28
Yorkshire Water	250	170	237	180	+6%	5.74

- Many companies have performance commitments in PR14 linked to water efficiency programmes and performance. However, with the introduction of retail competition for non-households from April 2017, some companies have expressed concern that they are no longer able to undertake actions to implement these. With retail competition for residential customers being discussed, this is a potential risk in PR19. We would welcome clarity from Ofwat on this issue and could work with Ofwat to share learning between companies that had these rewards in PR14 and how measures relating to customer service, for example, could help them to meet multiple targets.
- We are keen to see in period performance tracking against targets. In period reporting provides the opportunity for CCGs, Blueprint and other organisations to shine a light on poor performance allowing the relevant company to increase their effectiveness in good time.
- If payments and penalties are to be made at the end of a period, there needs to be an element which relates to performance through the 5 years, rather than just at the end. For example, for two companies with the same level of supply interruptions, we would want to see a greater reward for consistently good performance on supply interruptions year on year, rather than three bad years and two good ones.

### Better reflecting resilience in outcomes

#### **Q8: What is your view on our proposals for better reflecting resilience within the outcomes framework?**

- We support the use of resilience planning principles as described in Appendix 3, but we believe the absence of any reference to the resilience of the environment on which the companies rely to operate, needs to be addressed. We propose the inclusion of an additional principle as below in box 3.
- This new principle makes good business sense, as investment in environmental enhancement prior to drought or flood could improve operational flexibility, reduce the need for unplanned emergency mitigation and reduce reputational risk that companies and regulators inevitably face when the environment and people suffer in a crisis.



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## Box 3

### Principle X – A naturally resilient water sector

Companies' resilience risk assessments should consider the resilience of the ecosystems and natural environment on which their operations depend (abstraction, treatment, discharges). Key vulnerabilities should be identified in their plans and measures identified and implemented to improve ecosystem resilience. Ecosystem resilience should be part of the decision making process (Principle 3) with progress regularly reported and reviewed.

- This principle also reflects the requirements of companies operating in Wales, and Ofwat, under the Environment Act (Wales) 2016. These include taking account of ecosystem resilience in their decision making and reporting against it. Blueprint members will be advocating for a similar duty in England in a forthcoming Water Bill.
- More generally, it is important to include resilience of the environment when discussing resilience with customers, as encouraged in the customer engagement policy statement for PR19. Exclusion of the environment from outcomes risks skewing options presented during customer engagement and driving demand for investment or levels of service, which place additional stress on the environment. For example, customers presented with a limited range of options may call for investment in sourcing new supplies to ensure resilience to drought, instead of seeking environmental enhancements which could make existing supplies less vulnerable to drought.

#### *Longer term performance commitments*

- We support the approach of having five year commitments but with projections beyond 2025.
- We are also open to having longer term performance commitments, however we would like to see tracking and reporting of progress against milestones in each investment period.
- It is important that in order to deliver long term resilience, basic good practice levels and commitments are established. By reducing leakage and investing in long term demand reduction, companies will be more able to absorb shocks in the future.

*Ofwat's preferred approach to have common commitments that also reflect resilience (asset health, sewer flooding) and to allow companies/stakeholders to develop other resilience metrics.*

- We support Ofwat's preferred approach. A number of the environmental outcomes performance commitments we have proposed also reflect resilience.
- Blueprint is actively working with the Water and Wastewater Resilience Action Group (WWRAG) to develop other resilience metrics.

#### **Q9: What is your view on the options and our preferred approach to asset health outcomes?**

- Measures around asset health should include consideration of the impact of asset failures on the environment. There may be a possibility of rewarding companies reaching their stretching asset health performance commitments, where this delivers significant environmental benefit. However, as described above, there should be no financial rewards for simply 'ceasing to pollute' (as for drinking water compliance, for which there are no rewards for reducing drinking water compliance failures, just penalties for failing to meet commitments to improve performance).
- Rewards would be applicable in cases where improvements saw environmental targets exceeded, such as a change from WFD 'good' to 'high' status in a particular element.



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## Making performance commitments more transparent

### **Q10: To what extent do you agree with our proposals for making performance commitments more transparent for customers?**

- We support Ofwat's proposals to make performance commitments more transparent for customers, CCGs and wider stakeholders. Our experience at the start of PR14 was poor, however we recognise that there is a commitment from the sector to improve.
- We support the four principals proposed: that performance commitments should be clear, unambiguous, complete and concise.
- We agree that companies should set out in their plans how they will keep customers, CCGs and stakeholders engaged on their performance through PR19.
- We seek greater clarity from Ofwat with regards to how it will make more usable and understandable information available on company performance commitments, targets, payments and penalties across the companies it regulates. We do not believe Ofwat can rely on a company by company approach with 21 separate performance reports. We suggest that Ofwat develops a user friendly web based platform, allowing interested parties to access past and current targets, actual performance and associated payments or penalties, whilst also providing a forward look on future targets and penalties. We believe this industry-wide information is probably too detailed for the DiscoverWater web site (though a link could be included) and that this is not adequately addressed by relying on company specific reporting.
- The system outlined above should be open source, enabling stakeholders and researchers to help water companies to meet these commitments and to hold companies to account.
- We note with interest section 4 in Appendix 4, which highlights a desire to make performance commitments more focussed on the outcomes that customers and society value, rather than on traditional measures of industry performance. As highlighted above, we would like to see an **Environmental Composite** common measure, which will allow stakeholders to capture the progress the sector is making to improve bathing water quality, deliver healthier rivers and support more sustainably managed water catchments. Such aspects are consistently highly valued by customers.
- Better dissemination of information should be encouraged, including use of social media channels and the DiscoverWater website.
- Additionally, fewer scheme specific outcomes should be allowed - generally these should be based on service unless justified.

*This response is supported by the following organisations:*

- The Angling Trust
- Friends of the Earth England
- Institute of Fisheries Management
- RSPB
- The Rivers Trust
- Salmon and Trout Conservation
- Wildfowl and Wetlands Trust
- The Wildlife Trusts
- WWF-UK



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